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# Succession of Farming to Entrant Farmers Through Establishing Agricultural Corporations Involving Their Predecessors

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Shortage of successors in Japanese farm households raises awareness of the significance of succession of farming to non-family members, which as an alternative to conventional transfer to family heirs, is also expected to ease burdens for new entrants to farming. However, challenges have been pointed out as follows: first, a successor has to quickly acquire farm management skills during a relatively short time period; second, for the successor who has no farm-background, financial burdens to succeed the farm are significant; third, even if the successor is well equipped with management skills, financial bases, and other resources, whether he/she can successfully inherit farming is still uncertain for unexpected reasons. Given these challenges, incorporation for succession of farming to non-family successors has emerged as a solution. This paper provides an overview of this emerging farm succession arrangement, and its challenges and future prospects. To illuminate characteristics and challenges in the succession of farming through incorporation, this paper employs case studies of two young farm successors without farm-background. Major findings indicated that the succession of farming to non-family members through incorporation enabled the non-family successor, (1) to begin farming with larger assets including lands with less financial resources; (2) to inherit production skills, management know-hows, and sales channels from the predecessor effectively; (3) to establish readily trust and credibility in the community based on what the predecessor had developed; and (4) to secure income from farming and become full-fledged farmers. Meanwhile, challenges remain for this new succession arrangement, such as matching between potential successors and farmers seeking non-family successors for which supports by local government and communities are essential.

Key words: succession of farming, succession to non-family members, entrant farmers, incorporation of farm

## 1. Introduction

Japanese farm households have long suffered from the shortage of successors. Now that those who have supported the agriculture of post-war Japan have begun retiring, the “successor problem” has become so critical that an alternative arrangement for succession of farming is seriously discussed among policymakers and stakeholders in farm and rural sectors.

To tackle the successor problem, a new succession arrangement, “Daisansha-keisho,” in which

qualified non-family individuals take over family-run farms without successors is drawing attention. This new arrangement, called in this paper, succession of farming to non-family members (SFNF), is meant to allow a “new entrant farmer<sup>1)</sup>” to succeed smoothly farming from a “predecessor” who runs a family farm but has no successor in the family. SFNF is gaining recognition among policymakers as exemplified with a policy program to support SFNF, which has been recently launched by the Ministry of Agriculture, Forestry and Fishery (MAFF) and will be discussed in the following

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section.

SFNF can take different patterns or forms. For instance, National Chamber of Agriculture (2014) has identified three patterns of SFNF as follows: 1) succession of farming takes place when a new entrant farmer begins farming, 2) succession of farming takes place following a certain time period of “co-operation,” that is, a successor prospect and a predecessor operate farming together, and 3) succession of farming takes place following establishment of an agricultural corporation involving the successor prospect and his/her predecessor, followed by a certain time period of their “co-operation” and then the successor’s take-over of the president position of the corporation.

In particular, the third pattern, “SFNF through establishing a corporation with his/her predecessor,” is expected to ease burdens for the successor in taking over his/her predecessor’s farming. For this arrangement involving both the predecessor and successor prospect can facilitate accumulation of the former’s assets into the company, allowing the latter to acquire readily with a less financial investment. However, to date, no significant studies analyzing in detail advantages of SFNF through

establishing agricultural corporations have been known. And the purpose of the present study is to fill the lack of academic insights about this novel succession arrangement by addressing a research question, “what are advantages of SFNF through establishing corporations that enables new entrant farmers to overcome obstacles to successfully take over predecessor’s farming?”

To address the research question, this paper analyzes two specific cases where the prospect successors and the prospect predecessors established agricultural corporations for smooth transfer of farming with help by intermediary agents. As detailed in the later sections, the studied cases concerning rice farming can yield insights generalizable to Japan’s farming sector as a whole.

This paper is organized as follows. First, the next section provides more detailed accounts of the “successor problem” in Japan as the backdrop of the study. What follows, “Review of Literature”, addresses the state of knowledge, and lack thereof, of existing studies on SFNF to explicate the significance of the present study. “Analytical Framework” describes how the analysis of this paper will be guided using the concepts of “costs

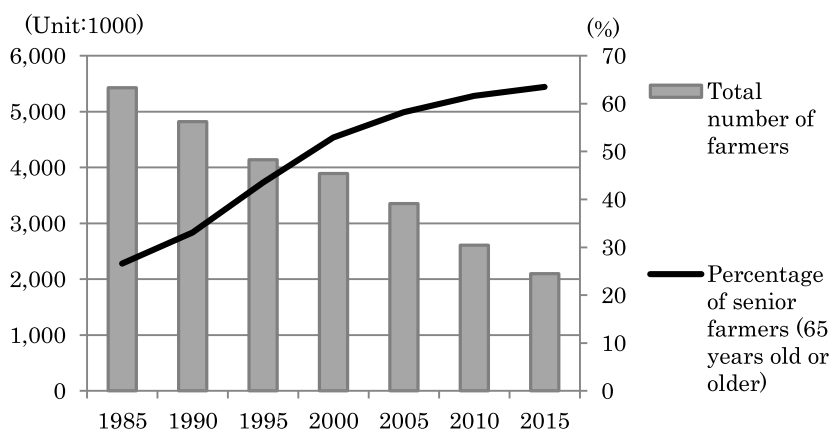


Fig 1. Number of farmers and farmers of 65 years old or older in Japan

Source: MAFF (1985, 1990, 1995, 2000, 2005, 2010a, and 2015a).

Table 1. The number of farm households with/without successor (Unit: 1000)

Year	2000	2005	2010	2015
Commercial farm households	2,336,909	1,963,424	1,631,206	1,329,591
with successor	1,646,345	1,071,331	969,056	682,016
without successor(%)	690,564 (29.6)	892,093 (45.4)	662,150 (40.6)	647,575 (48.7)

Source: MAFF (2000, 2005, 2010a, and 2015a)

for entrance into farming.” The “Findings” section delineates roles of Kaminaka Nougakusya, an actor that played critical roles in assisting the new entrant farmers involved in the studied cases of SFNF through establishing corporations and details of the cases. “Discussions” section illuminates advantages of SFNF through establishing corporations followed by “Conclusion,” which summarizes the results of the analysis along with remaining issues for future research.

## 2. The State of Workforce in Japanese Agri-culture

### (1) Farm households in Japan

Striking trends in farming populations in Japan are their aging and decline in number. The statistical data on farmers and percentage of those who are 65 years old or older (Fig 1), collected by MAFF, demonstrate clearly these trends. During 25 years from 1985 through 2010, the Japanese farming population plummeted from 5.4 million

to 2.6 million with a decrease of 51.9 percent. For the same time period, the percentage of the “senior” farmers was increasing steadily. In 2000 for the first time, more than the half of the farming population became 65 years old or older; in 2010 furthermore, more than 60 percent of the farming population reached that age or older.

The declining and aging farming population signals shortage of farm successors. In 2010, among commercial farm households<sup>2)</sup>, those that lack a successor amounted to 660,000, accounting for 40 percent (Table 1).

### (2) New farmers

Despite the grim situation of farm succession in Japan, it is also the case that approximately 50,000 people start farming every year, as shown in Table 2. While the majority of such new farmers are those who return home to get involved in the family farming, in fact the number of the “returning-home-to-start-farming<sup>3)</sup>” farmers has been declining. In the meantime, what draws attention are those farmers who become farmers by getting employed in farms

Table 2. How new farmers start farming in Japan

Year	2009	2010	2011	2012	2013
Returning home to start farming	57,400	44,800	47,100	44,980	40,370
Getting employed in farms	7,570	8,040	8,920	8,490	7,540
Establishing a new farm (new entrant farmers)	1,850	1,730	2,100	3,010	2,900
Total	66,820	4,570	58,120	56,480	50,810

Source: MAFF (2009, 2010b, 2011, 2012, and 2013)

Table 3. Age structure of new farmers (2013)

	< 39 years old	40-59 years old	> 60 years old	Total
Returning home to start farming	7,410	7,570	25,390	40,370
Getting employed in farms	4,500	2,180	860	7,540
Establishing a new farm (new entrant farmers)	1,450	930	520	2,900
Total	13,370	10,680	26,770	50,820

Source: MAFF (2013)

and the new entrant farmers who begin their own farm without succeeding a farm from their family. The former, the farmers who got employed in farms, amount to approximately 7,000 to 9,000 in the recent years as shown Table 2. The number of the latter, new entrant farmers, has recently increased to 3,000 a year from several hundreds in the 1990s.

These two pathways, though currently constituting only small part of the new farmer population, are potentially to be the mainstream to become farmers. The returning-home new farmers, however, tend to be old; as shown in Table 3, more than 60 percent (25,390 out of 40,370) of the returning-home farmers are 60 years or older, indicating that most of them return to farming after their retirement. Meanwhile, among the “employed farmers” and the “new entrant farmers,” the youngest generation (39 years old or younger) constitutes a half or more than a half of the total numbers in the same categories. These two pathways seem to be more realistic options for those who are from non-farming families yet wish to be engaged in farming.

### (3) Policy measures to support SFNF

The first policy program to support new entrant farmers started in 1987; but the target was on those who start farming as independent farmers from scratch. In 2008, the “Farm on Japan” (Nihon-ban faamu on jigyo) program was instigated as the first policy package involving a measure to support non-family farm successors. In 2010 this program

changed its title to “Farm Succession Aid Program” (FSAP, Nogyo keiei keisho jigyo) and has been effective ever since.

FSAP aims to matches potential successors from non-farm families with family farm owners who have no family heir to succeed. A prospect successor and a prospect predecessor both send an application for this program; after signing up, the two parties meet and go through a trial training session (two weeks) in which they make a plan toward succession of the farm; and if both agree on the plan, they proceed to the full-fledged succession training session to transfer technical and management skills up to two years. Upon completion of the full training session, the successor takes over the farming from the predecessor. The costs for the training sessions are subsidized by MAFF.

According to data provided by MAFF (2015b), during 2008 through 2014, 556 prospect successors and 367 prospect predecessors signed up for FSAP, out of which 98 pairs have proceeded to the full succession training session. In total, 45 pairs have successfully completed transfer of farming; yet 42 pairs have aborted the transfer process.

The failures in succession, according to MAFF and National Chamber of Agriculture, could be attributed to lack of trust between prospect successors and prospect predecessors. Thus, a challenge still remains as to measures to be taken to nurture trustworthy relationships between the two

parties and draws attention to roles of actors who serve as intermediary agents between them.

### 3. Review of Literature

Passing on farming to following generations is one of the critical issues facing agriculture in Japan. The conventional succession of farming to successors, which has been arranged through inheritance between family members (i.e. from parents to their children), seems unfeasible due to the shortage of successors within the family. The dearth of family successors has prompted new pathways for succession of farming to non-family members, such as SFNF. Such pathways could take diverse forms, including establishment of farming corporations. The existing literature, however, has paid little attention to this new pattern of succession of farming.

In the shortage of successors, while those who have no farm-background could be expected to take care of farms in Japan, they frequently face significant challenges in entering farming, including (i) access to land, (ii) acquisition of skills in agriculture, (iii) time and cost until being able to make stable earnings, (iv) securing the initial financial capital, (v) being accepted into and building trust with a local community, and (vi) obtaining housing (Inamoto 1992, Tabata 1997, Egawa 2000). In order to overcome some of the challenges above, it is essential to build schemes to facilitate entrant farmers to acquire resources for farming from and build trust with existing farmers from whom prospect entrant farmers take over the farming (Uchiyama 1999, Okabe 2001, Sawada 2003).

It is for the purpose of facilitating transfer of farming resources to prospect successors that SFNF has been developed. For example, Yamamoto and

Umemoto (2012) and Yanagimura et al (2012) have identified following advantages of SFNF. First, in this succession arrangement, the successor can start farming with greater “material/tangible” assets, including larger land tracts and abundant equipment, than in cases where entrants have to acquire resources by him/herself. Second, the successor can take advantage of “non-material/intangible” assets, such as farming skills and knowledge, sales channels and credibility in the community he/she belongs to.

In the meantime, the same literature have pointed out challenges pertinent specifically to this succession arrangement. For instance, a successor prospect has to attain higher skill levels to run an already established farm. When formally succeeding the farming, the successor will incur additional financial costs to purchase assets (e.g., lands, equipment, etc.) from the predecessor.

To cope with said challenges, however, the existing literature has little to say. Meanwhile, as the document by National Chamber of Agriculture (2014) suggests, establishing an agricultural corporation involving both the successor and predecessor prospects for the purpose specifically of succession of farming could be a promising pathway for succession of farming. An implication of the above document is that this arrangement, which formally and inevitably involves the successor and predecessor in running the farm together for a certain time period, can facilitate the successor to learn farming skills effectively. In addition, farming resources can be easily inherited from the predecessor, first, to the corporation, then to the successor, allowing the latter to avoid additional financial burdens.

Despite such expected advantages, as mentioned above the establishment of agricultural corporations for succession of farming has rarely been investigated. This paper therefore intends to fill this

lacuna of insights as to SFNF through establishment of agricultural corporations, a novel arrangement of succession of farming, with the specific focus on its relevance to costs needed for acquisition by successors of material and non-material assets.

#### 4. Analytical Framework

The analysis in the following sections will be guided by insights from abovementioned Yamamoto and Umemoto's work (2012), which highlights "costs" to acquire material and non-material assets for successors to incur in SFNF processes. Those costs not only concern monetary ones to purchase material assets, such as land tracts, farm machinery equipment and greenhouses, but could include intangible (non-material, social, institutional and psychological) costs, such as time and/or labor to be accepted and trusted by the community and other stakeholders, to establish market channels, to acquire skills and knowledge to run the farm (Inamoto 1992, Yamamoto and Umemoto 2012).

In Yamamoto and Umemoto's (2012) framework, costs for obtaining material assets are further divided into two categories including "Initial material costs at entrance to farming" and "Additional costs after entrance and/or at succession"<sup>4)</sup>; besides, costs to acquire non-material assets include "Costs to learn production skills," "Costs to learn financial management skills," and "Costs to gain sales channels and trusts among relevant stakeholders." The conceptualization of costs for both material assets and non-material assets will be applied to analyze comparatively advantages of SFNF through establishing corporations and SFNF without establishment of corporation.

#### 5. Methodology

To illuminate the mechanism of SFNF through establishing agricultural corporations, this paper analyzes two cases where transfer of farming took place through establishing farming corporations and training facility as an intermediary agent between the prospect successor and the prospect predecessor. The data collection relied on primarily interviews with the key informants involved in each case. In the analysis, specific foci were put on the processes through which the entrant farmers (1) acquire material/tangible assets, such as farming machinery and other equipment, (2) acquire non-material/intangible assets, such as farming skills and sales channels, credibility and trust among local communities.

The two cases for this study have already completed succession through SFNF. The successors in both cases had no farm-background but participated as trainees in Kaminaka Nougakusya, which is a training facility for new entrant farmers founded primarily by the government of Wakasa Town.

The chosen cases (to be described below) were rice farmers and the choice was deliberate. Succeeding a rice farm is highly challenging due to difficulty for non-family members to acquire lands in and trust with rural communities where the family farming predominates. It is essential for new farmers to overcome these challenges to start farming. It is anticipated that insights elicited from the cases of succession of rice farming are more likely to be generalizable to a substantial fraction of Japan's agricultural sector. The examination of how family-run rice farms are transferred to non-family members can yield useful insights about the farm succession.

## 6. Findings

### (1) Overview of *Kaminaka Nougakusya*

As a premise to analyze the cases of SFNF, understanding roles by *Kaminaka Nougakusya* is crucial. This sub-section preceding descriptions and analyses of the cases, therefore, delineates its historical development and roles in assisting new entrant farmers in the area. *Kaminaka Nougakusya* is located in Wakasa Town, Fukui Prefecture. Wakasa Town was founded in 2005 after the merger of two towns, *Kaminaka Town* and *Mikata Town*. Even before the merger, *Kaminaka Town* had been known for its rice production; yet the agriculture in the area was noticeably declining as the farm population with no pool of sufficient successors was shrinking. *Kaminaka Nougakusya* was established in 2001 and started its operation in April 2002. *Kaminaka Town* owns 47% of *Kaminaka Nougakusya*'s capital and local residents own 21%. *Kaminaka Nougakusya* is engaged in five major activities as follows: (1) training for new entrant farmers, (2) internship for college students, (3) hands-on farming study program for the general public, (4) commercial production on the area's farmlands, and (5) commercial processing and sales of agricultural products. Although receiving subsidy from Wakasa Town, *Kaminaka Nougakusya* has been making a profit by its activities since 2012.

### (2) Training program at *Kaminaka Nougakusya*

The main pillar of *Kaminaka Nougakusya*'s activities is the training program for potential farm successors. Trainees, after a two-year training program at *Kaminaka Nougakusya*, are expected to start farming in Wakasa Town. They are provided with a scholarship to support living and individual dormitory rooms at the facility. The scholarship, with no obligation to repay, can be used not only

as living expenses but also as base funding to start farming.

For the first year at *Kaminaka Nougakusya*, the trainees get involved in diverse activities to learn techniques, skills, financial and business management needed to start farming. In addition, trainees have opportunities to connect and interact with the local people; they oftentimes participate in community festivals and other events at local farmers organizations. Also visits to farmers in the area are scheduled to learn about their machinery and facilities, farming skills and techniques. These programs help trainees build trust and credibility among the local government and communities, which are crucial when they start farming in the area after completing the program.

For the second year at *Kaminaka Nougakusya*, trainees have more practical experiences; they are asked to manage by themselves—from planning, production to sales of products—rice paddies of 2 hectares and a tract of 0.3 hectares for vegetable production. With the assistance by the town office and *Kaminaka Nougakusya*, they also begin to prepare themselves for the life and farming in the area; arrangements are made to find farmlands, housing, and *Oyakata*, who serves as a trainee's supervisor, mentor, and mediator with the local community and is often chosen from farmers of influence in the area.

After the two-year program at *Kaminaka Nougakusya*, the trainees leave the facility to become independent farmers with help of their *Oyakata*. Roles of the *Oyakata* include helping his/her trainee (i.e. new farmer) find farmlands as a liaison or mediator with the community, giving guidance and advices in agricultural production, commercial management and his/her living in the community, requesting the local people to provide supports (e.g., discounted land rent and invitation to local events) to the entrant farmer. The new entrant



Table 4. Supports to trainees at Kaminaka Nogakusya and its graduates (entrant farmers)

Status		Trainee		New farmer
Year		1 <sup>st</sup> year	2 <sup>nd</sup> year	
Contents of supports	Access to farmland	-	Paddies 2 ha and vegetable tracts 20 a for training	3 ha of rice paddy
	Technical guidance	For rice production	For rice production and sales	Trained by <i>Oyakata</i>
	Stipend	US\$500/month	US\$700/month	US\$15,000/year for 5 year
	House	Living in Kaminaka Nougakusha		Assistance to find a house Subsidy to cover the half of rent
	Building trust with local community	Participating in local festivals and visiting local farmers as training programs		Supported by <i>Oyakata</i>

Source: Interviews by the principal author (Nagatani)

farmers in Wakasa Town also can take advantages of different aids and subsidies provided by the local governments, Kaminaka Nougakusya, and *Oyakatas* to overcome various obstacles noted in Table 4.

### (3) Case 1: Sanshin Farm

Sanshin Farm was founded as a *godo gaisya*<sup>5)</sup> in July 2006 by Mr. H who was a large-scale farmer in the area and Mr. A who was a graduate of Kaminaka Nougakusya. *Godo gaisya* is a class of business organization similar to the Limited Liability Company or LLC in the US. Production and sales of rice and contract production of other crops constitute Sanshin Farm's business activities. Currently, Sanshin Farm manages almost all the farmlands in the local community in which the company is located and expected to be the leading farmer of the area.

In the training days, Mr. A was introduced to Mr. H by delegate of Kaminaka Nougakusya. After graduation, initially, Mr. A started farming by his own with rented lands under Mr. H's guidance; his plan was, while continuing farming on his rented lands, to eventually take over Mr. H's farmlands. With a suggestion by the prefectural extension service, however, Mr. A decided to establish a *godo*

*gaisya* together with Mr. H three months after the graduation.

In founding Sanshin Farm as a *godo gaisya* in July 2006, Mr. A and Mr. H formally returned to the owners the lands they had personally rented, then, as the company, re-rented them. The farm equipment the company uses is technically leased from Mr. H. The initial funds were US\$30,000 including Mr. H's US\$15,000 and Mr. A's US\$5,000, along with the rest from Mr. H's four relatives, who serve as the executive officer and three employees of Sanshin Farm. To demonstrate who the successor is, Mr. A contributed the second largest investment following Mr. H's.

At the beginning of the company, Mr. H took the responsibility in production planning while both Mr. H and Mr. A performed physical tasks on the farm. But eventually Mr. H let Mr. A, with guidance, manage some of the tracts; Mr. A gradually gained skills and knowledge in the production process and was allowed to discuss more in detail with Mr. H in the production planning. Meanwhile, Mr. A with the experience at Kaminaka Nougakusya takes the responsibility in bookkeeping and financial management. It helped Mr. A to understand the financial state of Sanshin Farm. Assignments of

Table 5. Transition of management assignment of cases

Sanshin Farm

	1st year	2nd year	3rd year	4th year	5th year	6th year	7th year
President	Mr.H						Mr.A
Production Planning	Mr.H	Mr.H · Mr.A			Mr.A · Mr.H		Mr.A · Mr.H
Management Planning	Mr.H	Mr.H · Mr.A			Mr.A · Mr.H		
Operation	Mr.H · Mr.A				Mr.A · Mr.H		Mr.A · Mr.H
Financial management	Mr.A						

Kamiya Nouen

	1st year	2nd year	3rd year	4th year	5th year	6th year
President	Mr.I		Mr.B			
Production Planning	Mr.I	Mr.I · Mr.B	Mr.B · Mr.I			
Management Planning	Mr.I	Mr.I · Mr.B	Mr.B · Mr.I			
Operation	Mr.I · Mr.B				Mr.B · Mr.I	
Financial management	Mr.B					

Source: Interviews by the principal author (Nagatani)

Note: In cells where two names are listed, the first one indicates the person primarily responsible for the assigned role.

responsibilities between Mr. H and Mr. A are noted in Table 5.

Mr. H had Mr. A actively participate in community meetings and took him to customers so that community members and business partners would recognize Mr. A as the successor.

In June 2012, after about 6 years since the company's establishment, Mr. H determined that Mr. A was ready to take the management; the successor took over the president of Sanshin Farm whereas his predecessor became one of its employees and Mr. H's two children became its executive officers. Sanshin Farm, which succeeded tracts and other assets of Mr. H who was an influential figure in the area, is expected steward the local agriculture. Since its foundation, thus, the company has been engaged in the contract operation of farmlands in the community members and currently manages 30 hectares.

#### (4) Case 2: Kamiya Nouen

Kamiya Nouen (Kamiya Farm), also a godogaisya, was founded in April 2007 by Mr. I as the

president and Mr. B as the executive officer who is a graduate of Kaminaka Nougakusya. Production, sales and contract production of rice are the farm's principal business activities.

With his longtime interest in agriculture since his elementary school years, Mr. B learned about Kaminaka Nougakusya through his mother's friend who was among its founding members. After admitted to Kaminaka Nougakusya, he had various opportunities to visit the farm of Mr. I, who suggested that the trainee start farming under his guidance and mentorship. After graduation from Kaminaka Nougakusya, Mr. B decided to join Mr. I to start Kamiya Nouen.

In fact, before accepting Mr. B as the successor, Mr. I had failed to bring up an entrant farmer to be successor, who also graduated from Kaminaka Nougakusya. At that time, Mr. I fixed up 2 hectares of farmlands for the entrant, had the entrant help his farming, and meant to let him gradually take over the farm. The entrant, however, was engaged in a non-farm employment to support the living, and this act was against Mr. I's will. The entrant,

with no clear contracts made with Mr. I as *Oyakata* as to wage, time, and other labor conditions while working at *Oyakata's* farm, could not earn enough from farming to support the living and thus had to find a job outside. The entrant also wanted to produce other crops than what Mr. I was growing. Such incongruent desires or misunderstandings between *Oyakata* and the entrant-to-be-successor corroded the trust between them. Mr. I, giving up the initial intention to have the entrant succeed his farm, introduced the entrant to another farmer in a different community as a new mentor. This experience, along with a suggestion by the prefectural extension service and the story of Sanshin Farm, pushed Mr. I to establish Kamiya Nouen as a *godo gaisya* where he and Mr. B could work together.

Kamiya Nouen started its farming with 9 hectares including 2 hectares of Mr. I's own tracts and 7 hectares of rented lands. The farm machinery and facilities the company uses are technically "leased" from Mr. I. The initial funds were US\$20,000, consisting of US\$10,000 subscribed by Mr. I, US\$5,000 subscribed by Mr. B, and the rest invested by Mr. I's relatives (who also serve as members of Kamiya Nouen). Until he started Kamiya Nouen Mr. I was hesitant to expand production due to his age. Nonetheless, since the company's founding, Kamiya Nouen's lands (including rented ones) has grown to 14 hectares.

With Mr. I's past experiences, Kamiya Nouen was launched to grow mainly rice, although now Mr. I allows Mr. B to grow vegetables. For the first year of the company, Mr. I took the initiative in planning the production; yet after the second year Mr. I had Mr. B participate in the planning and eventually take the lead in the decision-making with Mr. I's advices. Both Mr. I and Mr. B are engaged in on-farm physical tasks. With the experience at Kaminaka Nougakusya, from the beginning

at Kamiya Nouen Mr. B has been in charge of bookkeeping and financial management, which helped him learn details of the farm's commercial management. To acquire advanced knowledge and skills in production and sales, Mr. B actively still takes part in technical workshops by the extension service and meetings with peer young farmers in the area. Assignments of responsibilities between Mr. I and Mr. B are summarized in Table 5.

At the beginning of Kamiya Nouen's third year (April 2009), Mr. I in his advanced age had Mr. B take over the president, although Mr. I continued to work as the executive officer of the company to give his successor advices and manage partially production (e.g., taking care of rice seedling nursery and machinery). Mr. B also still thinks he needs technical advices from Mr. I, although he as the successor eventually should be able to handle all the production at Kamiya Nouen.

## 7. Discussions

The case studies above have illuminated advantages of SFNF through establishing a corporation, compared to SFNF in general, as follows: (1) the succession as a legal process can be simpler since it is only a change of the company's president to the successor without other financial investment such as buying out shares from the predecessor, (2) as the entrant becomes a co-owner and executive member of the farming company, he/she can easily access to farm-specific information and be involved in management of the farm, and (3) the predecessor can, if necessary, remain in the company serving as a mentor to provide advice and support to the successor to assist farm operation and/or settlement into the community.

The easiness of the formal or legal succession process as explained in (1) can lead to lowering

costs to acquire material assets. The easiness of learning skills for farm management and of settlement into the local community, as summarized in (2) and (3) above, is enabled by the fact that a successor prospect and his/her predecessor work together in a company with substantial involvement

by the former. This arrangement obviously allows the successor to lower costs to acquire non-material costs. More detailed accounts of cost reduction effects in different material and non-material assets are summarized in Table 6, which compares characteristics of and costs pertinent to SFNF with

Table 6. Advantages of SFNF through establishing corporation in comparison with SFNF without establishing corporation and starting farming as an entrant farmer

Costs for entrant farmers or successor prospects <sup>*1</sup>		SFNF through establishing corporation <sup>*2</sup>	SFNF without establishing corporation <sup>*3</sup>	Start farming as an entrant farmer <sup>*4</sup>
Major characteristics	1. Farm operation size at entrance	Can be relatively large (inheriting from predecessor's)	Can be relatively large (inheriting from predecessor's)	Tends to be small due to insufficient fund to acquire land
	2. Time needed to be able to run full-time farm <sup>*5</sup>	Shorter as costs to acquire material and non-material assets are lower	Can vary depending on circumstances	May take substantial time period
	3. Required skill level at entrance	Basic at entrance as successors can learn from predecessor for a substantial time period	High since successor have to run relatively large-scale farm	Can vary depending on initial operation size and other conditions
Costs to acquire material assets	4. Initial material costs at entrance to farming	Lower as successor can access only by participating in corporation	Higher as successor purchases from pre-decessors	Higher as entrant farmer has to acquire by him/herself
	5. Additional costs after entrance and /or at succession	Usually none or little as successor inherits substantial land tracts and equipment	Usually none or little as successor inherits substantial land tracts and equipment	Higher if entrant farmer wants to enlarge operation
Costs to acquire non-material assets	6. Costs to learn production skills	Lower as skills can be learned directly from predecessors for a longer time period working together	Low as skills can be learned directly from predecessor (yet for a short time period)	Higher as entrant farmers has to learn by him/herself
	7. Costs to learn financial management skills	Lower as corporate and family finances are separated, making financial management simpler	Low as skills can be learned directly from predecessor (but could be complicated if faming and family finances are often mixed)	Higher as entrant farmers has to learn by him/herself
	8. Costs to gain sales channels and trusts among relevant stakeholders	Lower as successor working with predecessor can take advantage of assets established by predecessor	Low as successor can take advantage of assets established by predecessor	Higher as entrant farmers has to establish by him/herself

Note:

(\*1) Cost classifications (1-8) correspond to Yamamoto and Umemoto's (2012) classifications.

(\*2) Data items in "SFNF through establishing corporation" column are based on interviews by Nagatani, the principal author.

(\*3) Data items in "SFNF without establishing corporation" column are based on Yamamoto and Umemoto (2012), except the second ("Time needed to be able to run full-time farm"), which is based on interviews by Nagatani.

(\*4) Data items in "Start farming as an entrant farmer" column are based on four studies cited in Yamamoto and Umemoto (2012).

(\*5) More specifically, time needed for successors or entrant farmers to be able to run farms without relying on earning from employment outside their own farming.

Sources: Yamamoto and Umemoto (2012) and interviews by Nagatani.

and without establishment of corporation, and for a purpose of comparison, cases where entrant farmers start farming by themselves (Yamamoto and Umemoto 2012).

Despite the advantages, however, there are challenges in the SFNF through establishing a corporation. First, the matching between a successor and a predecessor is critically important. Elaborate agreements as to a variety of conditions between the two parties, such as crop selection, production planning and labor conditions, are indispensable for the successor and the predecessor to build the trusted relationship. Then, to assist the matching, interventions by third-party organizations or individuals (e.g., personnel of local governments or farmers groups as mediators) would be needed; in particular, mediators' capacity to listen to voices and wills of the entrant as a potential successor and match them with a predecessor is particularly crucial.

In that term, the personnel of Kaminaka Nougakusya plays essential roles. Kaminaka Nougakusya's staff members, who are also its graduates, can give effective and timely advices based on their own experiences to the trainees seeking an *Oyakata*. As the staff members have long resided in Wakasa Town, they have maintained trusted relationships with local stakeholders, such as the town government officers and leading farmers. With that trust, Kaminaka Nougakusya's staff can without trouble request the local community members to assist entrant farmers in a variety of ways, including participating in sensitive discussions such as arrangement to lease lands. Kaminaka Nougakusya's employees thus function as effective mediation and liaison with the local community in "match-making" between entrants and local farmers in need for successors.

## 8. Conclusion

This paper has examined advantages, gauged in terms of costs to acquire material and non-material assets for successors, of SFNF through establishing a corporation. The analysis has illuminated palpable benefits of SFNF through establishment of a corporation, which result from the easiness of the formal succession procedure and the substantial time period during which a successor prospect and his/her predecessor can work together. Specifically, the corporation established for succession makes it easier to transfer material assets from the predecessor to the successor and the command authority to run the farm. Also, enabling the predecessor and the successor together for a longer time period, SFNF makes it easier to transfer non-material assets, including skills and techniques for farming and management, access to market channels, and credibility and trust in the local community. The last assets, credibility and trust, are crucial as non-market/non-monetary or "social" factors for the successor to be successful in Japanese farming communities.

Meanwhile, SFNF without establishment of a corporation can hardly provide such advantages. In essence, SFNF through establishment of a corporation can significantly lower costs in acquisition of material and non-material assets, compared to the general SFNF and cases where entrant farmers start farming by themselves, and thus could be a promising and effective policy measure to secure successors of farming in Japan's agricultural sector suffering from the "successor problem."

From the case studies above a few noteworthy lessons can be elicited. First, the public sector's involvement, more specifically the subsidies to the training process, played a critical role in helping the entrant farmer prospects overcome the challenges, acquisition of farming skills in particular. Second,

the training prior to starting farming with their predecessor was vital—the programs at Kaminaka Nougakusya armed the entrant farmer prospects with fundamental skills necessary to work as farmers. Third, roles played by individuals who serve as mentors for entrant farmers, and liaisons and coordinators with the local community, such as *Oyakata* presented, were genuinely essential to the SFNF.

These lessons shed light on remaining research questions worth examining in the future. For instance, the significance of institutional roles of public sectors or mediators, such as assisting successors without farm-background to learn farming techniques, should be carefully analyzed. Of a variety of roles, matchmaking between successors and predecessors and helping them maintain good relationships, could be a vital research topic for the future, as it has been reported that deterioration of relationships resulted in failure of SFNF.

Another potential and important research topic concerns different organizational or legal forms of corporations. Indeed, the present paper has happened to deal with only the cases involving the specific type of corporation, namely, *godo gaisya*. A hypothesis can therefore be postulated that other corporate forms (e.g., a stock company) with different organizational arrangements and decision-making structures for governance and management have varying effects on effectiveness and/or efficacy in succession of farming. It can be hoped that articulating effects of different corporate forms can engender useful insights to improve SFNF through establishing corporations.

While SFNF through establishing corporations is a promising way to assist both the entrant seeking to start farming and the farmer with no successor, there are still substantial challenges as demonstrated above; accordingly, in fact, there have been few

known successful cases in Japan. By assessing the successful cases to elucidate possible assistances and helpful institutions by important actors, such as local governments and farmers associations, we can fully expand the potential of this novel succession scheme. Still, lessons elicited from the present study could add new insights inspiring policymakers in other countries and regions across the world to devise measures to cope with shortage of successors in farming sectors.

## Notes

- 1) In this paper, the “new entrant farmer” is defined, in accordance with the classification by the Ministry of Agriculture, Forestry and Fishery, “a person who has newly begun farming with land and/or fund procured by him/herself (except inheritance or bestowment from his/her parent) and is responsible for the farming operation.”
- 2) Commercial farm households refer to the farm households that have farmland larger than 30a or an annual sales over \$5,000.
- 3) The “returning-home” new farmers include individuals who quit or retire from a previous non-farm job and who graduate from schools.
- 4) In fact, Yamamoto and Umemoto (2012) classify three classes of costs to acquire material assets including “Entrance (initial) material costs to start farming,” “Additional costs after the entrance,” and “Other costs.” The present paper, however, employs modified versions of only the first two classes of costs, because the third, “Other costs,” could be reasonably deemed as being included in the second.
- 5) A class of business organization similar to the Limited Liability Company or LLC in the US, GmbH in Germany, and SAS in France. The 2006 Corporate Law amendment recognized this class of corporation in which each member, regardless of amount of shares, possess the equal right in decision-making; and distribution of profit can more flexibly determined than in the stock company. Thus new entrants with limited financial capital can participate in management.

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